Who Gets the Rents?
Mandated Benefits, Job Composition, and Labor Market Power

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Extended Abstract. This paper examines who bears the cost of mandated benefits when firms have wage-setting power, meaning that workers do not all leave at once when a firm pays less than another employer. The classical incidence logic says that workers can pay for a benefit mandate through lower cash wages when they value the new benefit at least as much as it costs the firm. If workers value the benefit less than cost, the mandate acts like an employment tax and jobs should fall. Peru's 2021 agrarian reform produces a different pattern: formal employment in covered firms rose about 77 percent relative to comparison firms, non-wage labor costs roughly doubled, cash wages per worker stayed flat, and pre-tax profit margins fell 7.4 percentage points by the second post-reform year. The paper argues that this joint pattern is difficult to reconcile with competitive incidence, but coherent in a setting where firms earn rents from wage-setting power and a statutory cash-wage floor prevents cash pay from falling.

The setting is Peru's new Agrarian Promotion Law, enacted in December 2020 and effective from January 2021. The reform expanded a non-wage benefit mandate for covered agrarian and agroindustrial firms by raising employer health-insurance contributions, restoring severance accruals, semi-annual bonuses, vacation rights, and profit-sharing, and it later phased in a corporate income tax increase for large covered firms beginning in January 2023. Because both parts of the reform were announced together, the empirical object is the incidence, or economic burden, of the bundled reform rather than a clean separation between the mandate and the tax. The legal design nevertheless supplies useful variation: coverage depends on statutory industry codes, geography, and ministerial annexes, leaving comparable food manufacturers outside the coverage rules.

The empirical analysis combines firm accounts with registry evidence on formal job positions. On the firm side, the paper uses Peru's Annual Economic Survey (EEA), a repeated cross-section of large firms covering fiscal years 2016–2023, with information on employment, wage bills, mandated-benefit bills, value added, and profits. Treatment is assigned by the law's 4-digit industry and geographic coverage rules, and the preferred repeated cross-section difference-in-differences design compares covered agroindustrial firms with nearby food, beverage, and non-eligible agrarian firms. The Payroll Registry adds 142 million formal private-sector job-position-month records, covering January 2020 through June 2023. These records show legal labor regime, occupation, education, location, employer size band, and monthly pay totals, although they identify positions rather than unique workers and contain no firm identifier.

The firm accounts deliver four facts that matter because they move together. Employment rose relative to the comparison group when a competitive model predicts no increase, and the differential is generated by relative stability among treated firms while comparison firms contracted. That is exactly the pattern a binding cash-wage floor predicts under a common demand shock, since firms whose wages are already pinned by the floor cannot reduce cash labor costs in the same way as interior firms. At the same time, mandatory-benefit bills rose sharply after the reform, so the legal change translated into employer costs rather than remaining merely symbolic. The wage bill also rose, but that increase came through employment rather than price: cash wages per worker did not fall meaningfully, while benefits per worker increased. Finally, profit margins compressed and losses spread, so the new costs appear in firm rents rather than in worker cash pay.

These facts matter because each one has an innocent interpretation on its own, but the four together rule out the competitive pass-through story. Full worker valuation of the new bundle would allow cash wages to fall without reducing employment, but cash wages did not fall enough. Partial worker valuation would predict employment losses under competition, yet employment rose. A simple bound using the statutory cost schedule places the average valuation of the full bundle below cost, while the positive employment differential rejects competitive incidence for any valuation between zero and full cost. The paper therefore interprets the pattern as rent incidence: the mandate pressed on the wedge between what workers are paid and what they produce.

The mechanism combines differentiated monopsonistic competition with a binding cash-wage floor. In differentiated monopsonistic competition, jobs are not perfect substitutes because employers differ in location, schedules, job attributes, and benefit bundles. Each firm therefore faces an upward-sloping residual labor supply curve and can pay a wage below the marginal revenue product of labor. When a benefit mandate arrives, workers who value the benefit may be more willing to supply labor to the firm, and the bundle may also change the composition of workers willing to accept formal agrarian jobs, which changes the elasticity of labor supply facing the firm. The statutory floor is what turns this mechanism into the observed incidence pattern: it blocks large cash-wage cuts, so valued benefits can support employment while the cost is absorbed by firm rents.

The Payroll Registry evidence disciplines this interpretation from the position side. Within the agrarian legal regime, the share of registered positions whose monthly pay total clears the minimum wage falls over the reform window, even in month pairs where minimum-wage arithmetic cannot mechanically explain the decline. A shift-share decomposition shows that this decline is mostly within occupation, education, and firm-size categories rather than between them. When the national minimum wage rose in May 2022, continuing agrarian positions moved up with the floor, indicating that the floor was visible in recorded pay. At the same time, the registered agrarian position mix shifted toward elementary occupations and away from post-secondary education. Because the registry observes positions rather than workers, this shift is descriptive selection in the formal registry rather than identified worker sorting; it is consistent both with lower-skill positions becoming more likely to appear under the agrarian regime and with employers formalizing previously informal low-skill positions.

The paper is deliberately cautious about what the current data can and cannot prove. The firm-side evidence establishes the incidence profile of the bundled reform, and the registry evidence shows that the floor and formal-position composition margins moved in the direction required by the mechanism, but the paper does not separately estimate wage-setting power. Survey measures of employer concentration describe thin sampled labor-market cells, yet treated and control cells are similarly thin, and a planned residual labor-supply IV design does not deliver an informative elasticity estimate. Market power is therefore the model that rationalizes the joint reform-response pattern, not a separately measured empirical result.

The broader implication is that mandated benefits are neither always paid by workers through lower wages nor automatically free to workers. Their incidence depends on the value attached to the bundle, mobility across employers and labor regimes, whether cash wages can adjust, and whether firms earn rents that policy can reach. In Peru's agrarian reform, the joint movement of employment, benefits, cash wages, and profits points to a reform that redistributed part of those rents through mandated compensation rather than passing the cost mainly into lower cash pay.

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